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FOR NEA/ELA

E.O. 12958: DECL: 08/21/2017  
TAGS: EFIN EPET EAGR PGOV SOCI JO  
SUBJECT: FINANCE MINISTER RESIGNS OVER DECISION TO MAINTAIN  
FUEL SUBSIDY

REF: A. AMMAN 3215

- ¶B. AMMAN 1479
- ¶C. 06 AMMAN 2525
- ¶D. 06 AMMAN 1986

Classified By: Ambassador David Hale for reasons 1.4(b) and (d)

¶1. (S) Summary: A government decision to maintain fuel subsidies, for now, has prompted the August 21 resignation of Deputy Prime Minister and Finance Minister Ziad Fariz. Fariz had sought an immediate end to the subsidy in favor of direct cash payments to low-income families, to lessen the disastrous budgetary impact of the spiraling price of oil. Although the King favors elimination of the subsidy, he was persuaded by his aides that doing so now would give the Muslim Brotherhood (MB) a major political advantage in the run-up to the November 20 parliamentary elections. Although this development creates an opportunity for the King to dismiss a government with a lackluster record, General Intelligence Directorate (GID) Director Mohammed Dahabi told the Ambassador on August 22 that the King has further decided that dismissing PM Bakhit now would also hand a pre-election victory to the MB, which is calling for Bakhit's resignation over the handling of municipal elections. Expected appointments to fill the three major ministries now vacant -- finance, water, and health -- might occasion a limited cabinet reshuffle on August 27. End summary.

Fuel Subsidy Saga: Right Move, Wrong Time

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¶2. (C) During the past few weeks, Deputy Prime Minister and Finance Minister Ziad Fariz, a strong proponent of fiscal reform, has been advocating the complete elimination of remaining fuel subsidies. The GOJ subsidizes a variety of fuel products -- liquid petroleum gas, diesel, and heavy fuel oil -- and with the price of crude averaging \$70/barrel, the IMF estimates that without price adjustments, the 2007 fuel subsidy would reach almost two percent of GDP. Complete lifting of the subsidy has been a GOJ long-term goal, and substantial progress was made by the Badran and Bakhit governments in 2005 and 2006, with implementation of three tranches of cuts in the subsidy, the most recent in April 2006 (ref C). Despite substantial palace pressure and commitments made to foreign donors, including the Saudis, who made increased assistance contingent on an end of the subsidy, Bakhit has been loathe to complete the process. NOTE: The fuel subsidy was originally scheduled to end in March 2007, but was delayed that same month due to a temporary easing of world oil prices and the subsequent expectation that revenues from the sale of unsubsidized gasoline and jet fuel would ease the pressure on the

budget (ref B). END NOTE. But by delaying a decision on the final tranche, Bakhit has brought the issue squarely into Jordan's electoral calendar, just when the regime is using every tool it can to prevent the Muslim Brotherhood from gaining ground in the elections.

¶3. (C) With oil prices again on the rise, Fariz had come to the conclusion that ending the subsidy was essential for him to meet his budgetary goals -- and politically the best time to move was right after the July 31 municipal elections and August 21 dissolution of parliament. Fariz had told the Ambassador last week he would step down if fuel prices were not raised, although it seemed like bluster at the time. As evidence of his desperation, he asked that we make lifting the subsidy one of the conditions precedent for the USAID annual cash transfers to the GOJ. NOTE: The Ambassador refused the proposal, which would have outraged Jordanian public opinion by making this difficult step appear to be an American demand. END NOTE.

¶4. (S) Bakhit prevailed in this argument because of the King's focus on his political contest with the Muslim Brotherhood. Although the King supports ending the subsidies, GID Director Dahabi told the Ambassador on August 22 that he agreed with Bakhit that doing so now was politically unwise, as it would hand the MB a major campaign theme by which to attack an uncaring government in the upcoming parliamentary election campaign. Interior Minister Fayed told the Ambassador the cabinet had accepted lifting the subsidy in three months, after the elections. But Fariz, known for his stubbornness, was insistent. Fayed observed that Bakhit, whose relationship with Fariz is tense, showed no effort to prevent the resignation. Bakhit is now basking in a wave of editorial popularity for showing sensitivity for the "little guy."

#### Implications for Cabinet Longevity

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¶5. (S) The Deputy Prime/Finance Minister's resignation, increasing the number of vacant ministries to three, is an opportunity to dismiss a cabinet whose performance the King is the first to criticize in private. However, according to Dahabi, the King, after some consideration, has decided to keep Bakhit in place through the parliamentary elections. The King had previously told the Ambassador that Muslim Brotherhood demands for the PM's departure, in the wake of the municipal elections, made it hard for him to do what he wanted (i.e. dismiss Bakhit). He could not take a step for fear of validating the MB's charges and appearing to offer a concession to them just when he needs to defeat their aggressive campaign. The Interior Minister told the Ambassador the vacancies would be filled on August 27. There may be a limited reshuffle of a few portfolios as well.

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